

HOUSING AUTHORITY OF THE COUNTY OF KING
King County, Washington
Special Audit
January 1, 1991 Through March 31, 1993

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified

Our audit of the financial records of the Housing Authority of the County of King and of the King County Housing Authority's (KCHA) Employee Advisory Committee revealed that at least \$4,498.56 in public funds were misappropriated by Ms. Lori Vandelac, payroll clerk of the housing authority and treasurer of the committee during the period January 1, 1991, through March 31, 1993. The accounting records were falsified in an attempt to conceal these losses. There were no federal funds involved in this case. The schedule below summarizes these losses.

<u>Description</u>	<u>Amount</u>
COBRA payments diverted to KCHA Employee Advisory Committee Checking Account	\$4,498.56
Less:	
Bank reversal of deposit to the KCHA Employee Advisory Committee Checking Account	<u>(903.32)</u>
Net Loss of Funds	<u><u>\$3,595.24</u></u>

These funds were misappropriation as described below.

- a. Ms. Lori Vandelac issued checks to herself from the KCHA Employee Advisory Committee bank account for her own personal use. The amount and number of these checks indicated no relationship to the actual purchases made on behalf of the committee.
- b. To replace the funds misappropriated from the committee checking account, Ms. Vandelac stole COBRA check payments made payable to the housing authority and deposited these funds into the committee checking account. These transactions were possible because of the similarity of the names of the two entities. When this scheme was detected, one of these irregular bank deposits was reversed by the bank and credited to the account of the housing authority. Since COBRA payments were not always recorded in the accountability records when received, these transactions could not be properly accounted for by the housing authority.

- c. Ms. Vandelac then properly paid the health care providers the required premium amounts for these COBRA enrollees and/or their dependents from housing authority funds. Thus, no one was aware of these irregularities.

Ms. Lori Vandelac was the housing authority payroll clerk and treasurer of the committee during the period of this loss. As payroll clerk of the housing authority, she was responsible for processing the monthly COBRA payments and coding these transactions before they were deposited. As treasurer of the committee, she was solely responsible for all cash receipting and disbursing functions. Ms. Vandelac voluntarily terminated her employment with the housing authority on August 13, 1993, prior to the discovery of the misappropriation of funds. As a result of her departure and her unwillingness to turnover the KCHA Employee Advisory Committee checking records to the new committee treasurer, our investigation was delayed while the housing authority obtained copies of the bank statements and checks. Ms. Vandelac was contacted and afforded the opportunity to provide an explanation for the transaction that occurred, but did not respond to our inquiries.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district who:

- (1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or
- (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or
- (4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive same, or to such county, city, town or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in the state correctional facility for not more than fifteen years.

RCW 9A.56.030 states:

Theft in the first degree.

- (1) A person is guilty of theft in the first degree if he commits theft of:
 - (a) Property or services which exceed(s) one thousand five hundred dollars in value; or

(b) Property of any value taken from the person of another.

(2) Theft in the first degree is a class B felony.

RCW 9A.60.020 states:

Forgery.

(1) A person is guilty for forgery if, with intent to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument or;

(b) He possesses, utters, offers, disposes of, or puts off as true a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

RCW 9A.20.021 states in part:

Maximum sentences for crimes committed July 1, 1984, and after.

(1) Felony. No person convicted of a classified felony shall be punished by confinement or fine exceeding the following

(b) For a class B felony, by confinement in a state correctional institution for a term of ten years, or by a fine in an amount fixed by the court of twenty thousand dollars, or by both such confinement and fine;

(c) For a Class C felony, by confinement in a state correctional institution for five years, or by a fine in an amount fixed by the court of ten thousand dollars, or by both such confinement and fine

The following internal control weaknesses allowed the housing authority payroll clerk to conceal these losses without being detected.

- a. There was inadequate segregation of duties for the KCHA Employee Advisory Committee checking account. All cash receipting and disbursing functions were the sole responsibility of one person, the treasurer. However, there was no periodic management review of the work performed by this individual which would accomplish the same objective as a segregation of duties between two or more employees. In addition, the duties of treasurer of the committee were incompatible with the duties of employees in the housing authority's accounting department.
- b. Checks for payment of COBRA premiums by enrollees and/or their dependents were distributed to the payroll clerk for coding and returned to the accounting department clerk for preparation of the deposit. However, there were no procedures in effect to ensure that all checks were subsequently returned for deposit as required.
- c. Depending on the payment cycle of the health care vendor, "automatic" payments were made to the vendors even if the COBRA premium payments had not been received by the housing authority prior to the tenth of the month. As a result, there were no complaints from the COBRA participants for coverage

discontinuance as a result of these transactions.

- d. The housing authority did not consistently review the matching of the premium payments made by the COBRA enrollees and/or their dependents with the related housing authority payments actually made for health care coverage.

We recommend the following:

- a. Housing Authority of the County of King officials seek recovery of the misappropriated \$3,595.24 and related audit/investigation costs from Ms. Lori Vandelac, the KCHA Employee Advisory Committee, and their insurance bonding company, as appropriate.
- b. The Washington State Office of the Attorney General and the King County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and the State Auditor as directed by RCW 43.09.260.

Bond coverage for housing authority employees is as follows:

Housing Authority Risk Retention Pool

Fidelity Coverage A (Employee Dishonesty)

Policy Number 008

Coverage - \$500,000 with a \$1,000 deductible

Period of coverage - continuous for the period of the audit

- c. Housing Authority of the County of King officials review their overall accounting controls, correct weaknesses outlined above, and implement an effective system of internal controls designed to ensure the protection of housing authority assets.

